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SUBJECT: Hong Kong's Profits Down, Hope For New Tourists Up

¶1. Summary: Some of Hong Kong's richest men announced their company profits were hit hard by the economic downturn, with Bank of East Asia's 2008 profits falling by 97.5 percent from 2007. Air and sea cargos fell by double digits again in January, while the unemployment rate edged up to 5 percent. Provincial leaders announced that all Guangdong residents would be able to travel to Hong Kong as individual travelers, Hong Kong's Tourism Board estimates that could boost the number of mainland tourists up by 5 percent this year. The Hang Seng Index fell 6.3 percent this week as investors were unenthusiastic about U.S. prospects.

The Rich only get a Little Richer

¶2. Hong Kong-listed companies have begun to report 2008 year-end results reflecting the impact of the global financial turmoil on the Hong Kong economy. On February 10, Hang Lung Group, a property holding company owned by Ronnie Chan, reported a 78 percent drop in net profits from a year ago, while profits at its subsidiary, Hang Lung Properties, fell 83 percent. Ronnie Chan told the press that he expects the Hong Kong property market to continue to fall over the next year. Despite claiming last year to have written off all of its exposure to "toxic" subprime assets, Bank of East Asia this week announced its profit after tax for 2008 dropped 97.5 percent to just HKD 39 million (US\$5 million), its first fall in four decades. Owner David Li apologized to shareholders and promised to postpone his imminent retirement to improve the bank's book over the next three years.

Cargo Traffic Still On the Skids

¶3. Both Hong Kong's air and shipping cargo businesses fell further in January. Statistics published by the Hong Kong Airport Authority on February 15 indicated that January air cargo volume fell 28.9 percent from a year ago. Hong Kong Airport Authority CEO Stanley Hui said "the declines we are experiencing in the aviation industry are largely consistent with what is happening with the global economy". Cathay Pacific and Dragonair, the two Hong Kong airlines, saw cargo volumes down 26 percent in January. Passenger traffic rose 0.2 percent in January due to the Lunar New Year holiday.

¶4. Hong Kong's container throughput totaled at 1.6 million TEUs in January, down 23.2 percent from a year ago. Traffic at Kwai Tsing Container Terminal was down 18.7 percent, while container terminals outside Kwai Tsing dropped 34.1 percent. The three day Lunar New Year holiday stopped or slowed work at some terminals, but cannot account for the large drops in volume.

Unemployment Up, Employers Urged to Keep Workers

¶5. The Hong Kong government announced this week that the unemployment rate for the three months ending in January rose to 4.6 percent from 4.1 percent in the last quarter in 2008. Market sources said Hong Kong's unemployment rate in January was close to 5 percent. Chief Secretary Henry Tang called upon two of Hong Kong's largest employers, HSBC and PCCW, not to lay off employees.

Beijing to the Rescue (Again)

¶6. During the Hong Kong-Macau-Guangdong joint conference held February 19, Guangdong officials disclosed that all Guangdong residents will be allowed to visit Hong Kong as individual travelers in order to boost Hong Kong's tourism industry. The Hong Kong Tourism Authority expects that the new measures could push up the number of Mainland tourists to Hong Kong by 4 to 5 percent this year.

¶7. The Hang Seng Index finished the week down 6.3 percent or 855.5 points, closing Friday at 12699.17. Treading during the week was light, averaging less than HKD 39 billion per day. HIBOR remained low, with overnight and one week funds at 0.05 percent, one month at 0.18 percent and three month at 0.78 percent.